

Jubilee Resources Inc.

Annual Report 1995

Report to Shareholders

The year ended June 30, 1995 was one of consolidation and of working toward future expansion. We added in a small way to production from our principal producing properties, which were acquired late in 1994, and devoted much of our attention to a new acquisition which would add significantly to our current resource base.

Jubilee's cash flow from operations for the year was less than forecast, due to lower than expected market prices for natural gas. This, however, was balanced by holding the line on operating costs. Over the longer term, we expect gas prices to increase significantly, and therefore we are continuing to pursue additional purchases of producing natural gas properties.

At present, Jubilee owns:

A 15% working interest in 27 producing wells and a gas plant in the Dodsland North Viking gas pool in Saskatchewan. The field is now producing more than 2,000 Mcf per day.

A 20% working interest in 17 sections of land in Greenan, Saskatchewan containing 15 producing Viking gas wells, a gathering system and gas plant. The field is presently producing 1.1 million cubic feet of natural gas per day. Jubilee also has a 20% working interest in an additional 1,555 hectares of potentially productive land in the same area.

A 35% working interest in three producing oil and gas wells in the Provost area of East Central Alberta. Present gross production from these wells is 12 barrels of oil per day and 100 Mcf of natural gas.

With our present interests, Jubilee estimates that its net share of current gas production amounts to 600 Mcf/d, resulting in annual cash flow before general and administrative expenses of \$150,000. The loss reported for this year, at less than one cent per share, reflected the impact of reduced market prices for natural gas. Our cash flow position was a break even one.

It is our belief that natural gas prices will rebound by the fall of 1996. Declines in Canadian gas reserves, estimated by some industry observers at 15% to 22% per year, when combined with low drilling rates, should result in a substantial rise in prices over the next year.

We therefore will continue to pursue:

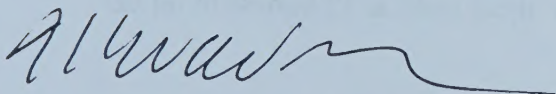
- i) Our long-term goal to expand our oil and gas base in Western Canada through corporate mergers and the acquisition of quality producing properties, and
- ii) The development and placement of oil and gas funding and investment vehicles for Canadian and offshore investors.

We are currently negotiating with a large Canadian oil and gas company to purchase a significant package of natural gas interests for \$16 million. Jubilee expects to purchase at least a 50% interest in the \$32 million package in conjunction with an industry partner. We are planning to finance Jubilee's \$16 million-plus portion of this acquisition with a combination of a prepaid natural gas contract for part of the future production as well as with a bank loan and a common share equity issue.

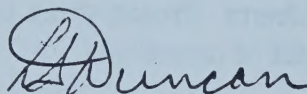
The proposed acquisition ranks as our largest since Jubilee was recapitalized in 1993. When completed, it would add 84 billion cubic feet of net proven natural gas reserves to Jubilee, enlarging considerably the company's holdings and cash flow.

Our principal objective and our focus is to employ the foregoing approaches to maximize reserves and cash flow, and therefore add significantly to shareholder value.

With the continued support of our directors and you, our shareholders, we believe 1996 will be a year of renewed growth and financial strength.



Kenneth W. Winger
Chairman of the Board



L. Stewart Duncan
President

November 30, 1995

AUDITORS' REPORT

To the Shareholders of
Jubilee Resources Inc.

We have audited the balance sheets of **Jubilee Resources Inc.** as at June 30, 1995 and 1994 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Calgary, Canada
October 4, 1995

Chartered Accountants

Jubilee Resources Inc.
(Incorporated under the Business Corporations Act of Alberta)

BALANCE SHEETS

As at June 30

	1995	1994
	\$	\$
ASSETS		
Current		
Cash	—	15,582
Accounts receivable [note 3]	22,664	100,326
	22,664	115,908
Property, plant and equipment [notes 2 and 3]	1,151,500	1,155,454
	1,174,164	1,271,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	1,861	—
Bank loan [note 3]	290,000	200,000
Accounts payable and accrued liabilities	19,911	56,316
	311,772	256,316
Provision for future site restoration	4,007	—
Shareholders' equity		
Share capital [note 4]	1,413,252	1,413,252
Deficit	(554,867)	(398,206)
	858,385	1,015,046
	1,174,164	1,271,362

See accompanying notes

On behalf of the Board:


Director


Director

Jubilee Resources Inc.**STATEMENTS OF LOSS AND DEFICIT**

For the year ended June 30

	1995	1994
	\$	\$
REVENUE		
Petroleum and natural gas sales	298,145	176,165
Royalties	(39,763)	(32,197)
Alberta royalty tax credit	1,197	1,730
	259,579	145,698
Royalty income	904	—
Interest and other	—	6,681
	260,483	152,379
EXPENSES		
Operating	131,374	68,657
General and administrative	107,723	93,148
Depletion and depreciation	156,197	38,695
Interest on long term debt	21,850	—
	417,144	200,500
Net loss for the year	(156,661)	(48,121)
Deficit, beginning of year	(398,206)	(350,085)
Deficit, end of year	(554,867)	(398,206)
Loss per common share [note 6]	(0.01)	—

See accompanying notes

Jubilee Resources Inc.**STATEMENTS OF CASH FLOWS**

For the year ended June 30

	1995	1994
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(156,661)	(48,121)
Add item not requiring a current cash payment		
Depletion and depreciation	156,197	38,695
Funds used in operations	(464)	(9,426)
Change in non-cash working capital related		
to operating activities	40,749	(64,359)
Cash provided by (used in) operating activities	40,285	(73,785)
FINANCING ACTIVITIES		
Bank financing	90,000	200,000
Issue of common shares, net of share issue costs	—	1,042,207
Change in non-cash working capital related		
to financing activities	(7,610)	7,610
Cash provided by financing activities	82,390	1,249,817
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	(148,236)	(1,194,149)
Change in non-cash working capital related		
to investing activities	8,118	8,569
Cash used in investing activities	(140,118)	(1,185,580)
Decrease in cash during the year	(17,443)	(9,548)
Cash, beginning of year	15,582	25,130
Cash (overdraft), end of year	(1,861)	15,582

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles. The financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Property, plant and equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one Canadian cost centre and charged against earnings in the manner set out below. Such capitalized costs include land acquisition, drilling, geological and geophysical, and overhead expenses related to exploration and development activities.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on the accumulated costs of proved properties, net of estimated salvage for tangible equipment, using the unit of production method. Costs of unproved properties, net of any impairment allowances, are excluded from depletion. For purposes of the depletion calculation, estimated proved petroleum and natural gas reserves, as determined by independent engineers, are converted to a common unit of measure on the basis of their approximate equivalent energy content.

The net book value of the Company's petroleum and natural gas properties, net of any deferred income taxes, may not exceed the ultimate recoverable amount. This latter amount is determined by applying year end petroleum and natural gas prices to expected future production from proved reserves, adding the cost of unproved properties, and deducting impairment allowances on unproved properties, future general and administrative costs, financing costs, estimated future site restoration costs and income taxes.

Depreciation of production equipment and facilities is computed on the unit-of-production method based on estimated proved reserves.

Future site restoration

Future estimated site restoration costs for property, plant and equipment are accrued and charged against income over the life of the estimated petroleum and natural gas reserves on a unit-of-production basis. The annual provision is included with depletion and depreciation expense. Site restoration expenditures incurred are charged to the accumulated provision for site restoration.

Jubilee Resources Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

Joint venture accounting

The accounts reflect the Company's proportionate interest in exploration and production activities conducted jointly with others.

Income taxes

The Company follows the deferral method of tax allocation accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company provides for deferred income taxes resulting from timing differences between the recognition of net income for income tax purposes and for financial statement purposes. The source of these differences is principally exploration and development expenditures and capital cost allowance deductions for income tax purposes which differ from depletion and depreciation expense.

2. PROPERTY, PLANT AND EQUIPMENT

	1995		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Petroleum and natural gas properties, including equipment thereon	1,303,690	152,190	1,151,500

	1994		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Petroleum and natural gas properties, including equipment thereon	1,194,149	38,695	1,155,454

Jubilee Resources Inc.**NOTES TO FINANCIAL STATEMENTS**

June 30, 1995 and 1994

No depletion has been provided on accumulated expenditures of \$146,000 related to unproved properties. During 1995, \$49,193 (1994 - \$20,780) of general and administrative expenses were capitalized.

The recoverability of the Company's petroleum and natural gas properties is dependent upon prices for crude oil and natural gas. At June 30, 1995, had the Company applied a cost recovery test based on current prices, substantially all of the carrying value would have been written off. However, as the properties were acquired in the prior fiscal year with the expectation that long term prices would be substantially higher than current prices, no writedown is required at this time. This practice is appropriate under generally accepted accounting principles in the 24 months subsequent to a major acquisition.

3. BANK LOAN

The Company has an operating credit facility of \$300,000 with a Canadian chartered bank. As at June 30, 1995, \$290,000 was owing under this facility. The Company's petroleum and natural gas properties, a general assignment of book debts and a registered fixed and floating charge debenture for \$5,000,000 covering all assets of the Company are pledged as collateral for the facility. Amounts owing from time to time under the facility are subject to interest at the bank's prime rate plus 1.25% per annum.

4. SHARE CAPITAL**Authorized share capital**

Unlimited number of common shares without par value.

Issued:

	<u>1995</u>		<u>1994</u>	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Outstanding, beginning of year	16,895,477	1,413,252	3,560,477	371,045
Shares issued for cash	—	—	13,300,000	1,036,957
Shares issued under share option plan	—	—	35,000	5,250
Outstanding, end of year	16,895,477	1,413,252	16,895,477	1,413,252

Jubilee Resources Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

During 1994, the Company issued shares by private placements for proceeds of \$1,077,500 before expenses of the issues of \$40,543. The tax benefits associated with these expenses have not been reflected in the financial statements due to the uncertainty of realization.

At June 30, 1995, the Company had reserved for issue and had options outstanding for 1,200,000 common shares under the Share Option Plan for employees, directors, officers of and consultants to the Company. The options vest evenly over a period of five years from the date of issue. These options have exercise prices ranging from \$0.175 to \$0.20 per share and expiry dates from December 1998 to June 1999.

The terms of a contract with a consultant to the Company require the Company to issue common shares in addition to cash for services provided under the contract. Accounts payable and accrued liabilities at June 30, 1995 include an amount for which 134,361 common shares will be issued as payment.

5. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying the corporate income tax rate of 44.43 percent to income before income taxes. The principal reasons for this difference are as follows:

	1995	1994
	\$	\$
Expected income tax recovery	(69,604)	(21,337)
Increase (decrease) in income taxes resulting from		
Non-deductible crown payments	10,261	16,108
Federal resource allowance	—	(1,540)
Alberta royalty tax credit	(532)	(767)
Financing costs deducted	(5,755)	(5,743)
Benefit of operating loss not recognized	65,630	13,279
Income tax provision	—	—

Jubilee Resources Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

The following deductions are available to reduce future taxable income:

	\$	Annual Rate of Claim %
Canadian development expense	55,000	30
Canadian oil and gas property expense	714,000	10
Undepreciated capital cost	318,000	25 or 30
Cumulative eligible capital	1,000	7
Foreign exploration and development expense	27,000	10
Financing issue costs	36,000	20
	1,151,000	

At June 30, 1995, the Company has cumulative non-capital losses available for carry forward of \$321,221 expiring as follows: 1996 - \$22,722; 1997 - \$16,323; 1998 - \$20,607; 1999 - \$21,882; 2000 - \$14,842; and 2002 - \$224,845. In addition, the Company has net-capital losses available for carryforward of \$195,626. The income tax benefits associated with these losses have not been reflected in these financial statements.

6. LOSS PER COMMON SHARE

Loss per common share is based on the weighted average number of common shares outstanding during the year of 16,895,477 (1994 - 13,294,643). The exercise of stock options and warrants would have no material dilutive effect.

Corporate Information

Jubilee Resources Inc. acquires and develops oil and natural gas properties in Western Canada. The company also develops and places oil and gas funding vehicles for Canadian and offshore investors. Jubilee is listed on the Alberta Stock Exchange under the trading symbol JUB.

Directors and Officers

Kenneth W. Winger
Chairman and Director
Jubilee Resources Inc.
President, Laidlaw Environmental Services
Columbia, South Carolina, U.S.A.

L. Stewart Duncan
President and Director
Jubilee Resources Inc.
Calgary, Alberta

Christopher S.L. Hoffman
Director
Partner, McCarthy Tetrault
Barristers and Solicitors
Toronto, Ontario

Charles T. Newman
Director
President, Tatra International Ltd.
Hamilton, Bermuda

Francesco M. Rossi
Director
Managing Partner, Rossi and Partners
London, U.K.

Corporate Offices

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Stock Exchange Listing

Alberta Stock Exchange
Trading symbol: JUB

Registrar and Transfer Agent

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Auditors

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Chartered Accountants
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